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Allowances on Patient Accounts and Hospital Profitability

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Description of Study and Method: This paper examines trends in allowances on patient accounts for the period FY 1987-92 and the impact of patient care allowances on overall hospital profitability (total facility margins). The data used are Medicare Cost Report Data for FYs 1987-92. FY 1991 data is merged with AHA Annual Survey Data.

Major Findings: Allowances on patient accounts increased from 28.6 percent of total patient revenue in FY 1987 to 38.6 percent in FY 1992.

A regression analysis using 1991 data found that proprietary hospitals, large urban hospitals, high disproportionate share (DSH) hospitals, hospitals with a high percentage of emergency care outpatient visits, and hospitals with a PPO contract made above average use of allowances on patient accounts.

Using 1991 data, when other factors (hospital financial characteristics, case and payer mix, management characteristics and services provided) are controlled for, the percent of total patient revenue attributed to allowances on patient accounts was negatively associated with total facility profit margins.



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